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BUDGET AND PROGRAM PLANNING
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October 28, 2001

To: Governor's Advisory Council on School Funding

From: Curtis Nichols
Office Of Budget and Program Planning

RE: Education Funding: Regional and Historical Perspectives

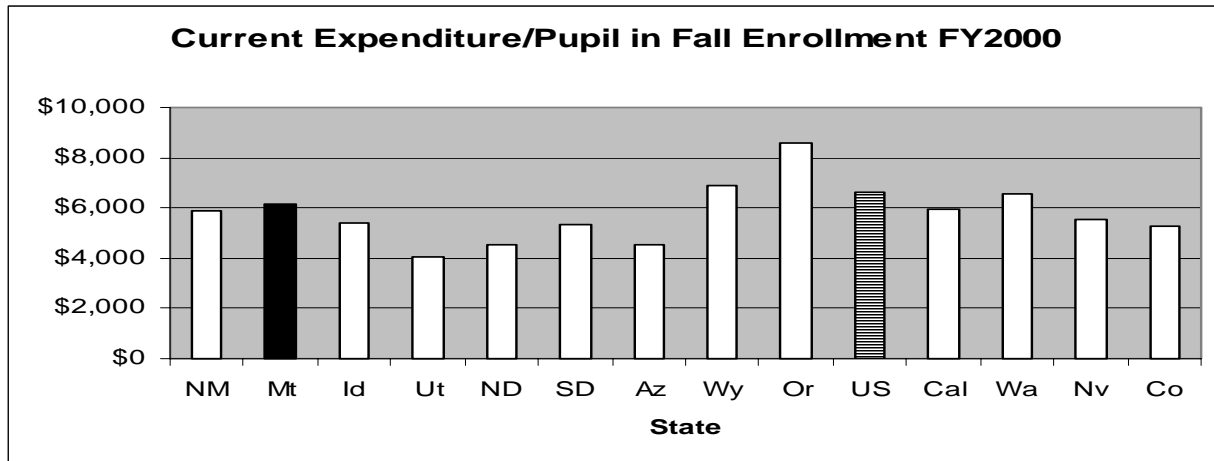
This report provides historical information about Montana school funding and looks at comparative regional and national funding levels.

National and regional data show when school spending and teacher salaries are viewed in light of income levels Montana compares quite favorably. This is not sufficient evidence on its own to conclude that our schools are funded at higher or lower levels than citizens prefer, that schools are operating efficiently or effectively or that our teacher salaries are high enough to attract sufficient qualified teachers. However it does suggest that there is not a general failure to adequately finance public schools. One may view it as a suggestion that additional resources should be targeted at clearly identified problems rather than broadly applied to increase overall spending levels.

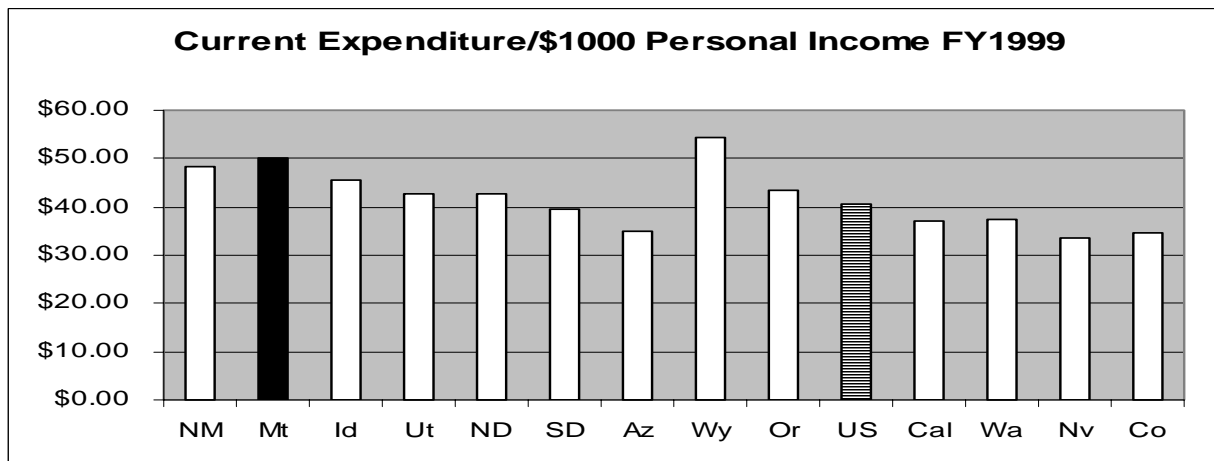
Against a background of shifting and somewhat complex state and local funding mixes school budgets have generally kept up with inflation on a per student basis. However because of declining enrollments this means overall budgets have grown more slowly than inflation.

Regional and national funding data

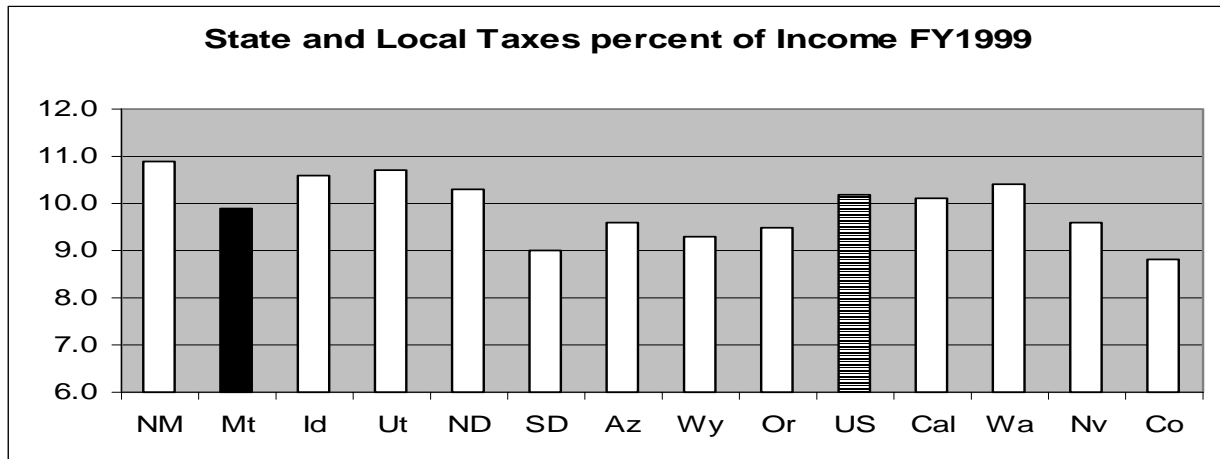
Montana's expenditure per pupil is below the national average yet above most western states as illustrated in the chart below¹. As used in this chart current expenditures include all operating expenditures of the schools from federal, state, and local sources. It excludes capital expenditures and debt service. It should be noted that higher spending levels may be expected to provide good schools but does not guarantee immunity to lawsuits challenging the adequacy of school funding. For example Wyoming who spends quite highly lost an adequacy suit in 1995.



While expenditure per pupil shows the resources expended to provide education in a state we recognize that states vary considerably in their income levels. Using current school expenditures per \$1000 of personal income the chart below² shows Montana exceeding the national average as well as most states in the west. In 2000 per capita income of Montanans was 76 percent of the US average and below most states in the west. Similar relationships are found when looking at other measures of income such as median family income.



Public schools are funded primarily from taxes at the state and local levels. The following chart³ illustrates the tax burden relative to income. Montana taxes slightly below the national average and near the middle of western states. An obvious question is: how can Montana tax at the average level and spend at an above average level on public schools. Several factors allow this, primarily: due to higher federal match rates in programs such as TANF and Medicaid relatively less state tax funding is required for these programs; relatively higher income from non-tax sources such as trust fund interest allows expenditures to be higher without increasing taxes; and a relatively higher priority is placed on public school funding.



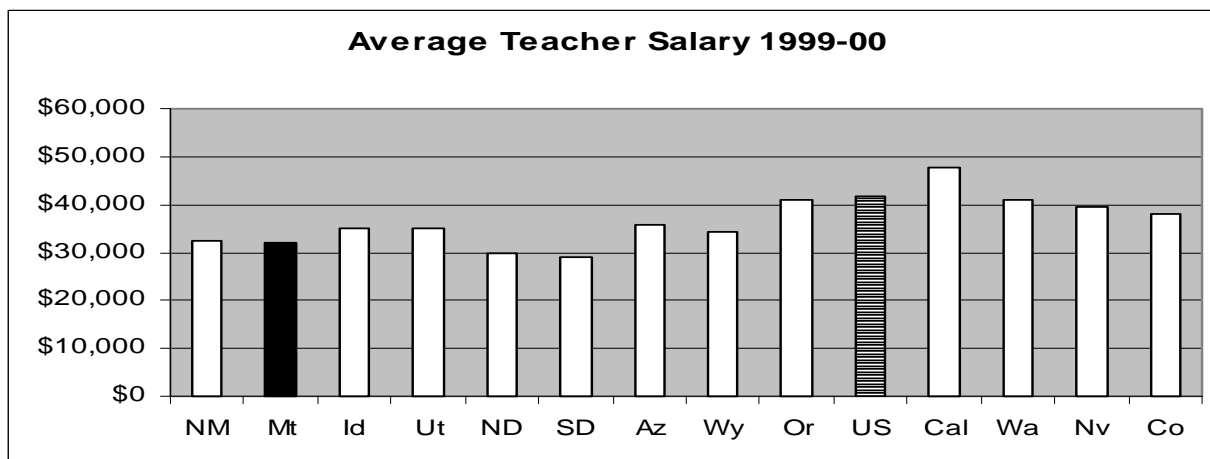
The first two charts in this paper viewing Montana school expenditures in different ways indicate relatively strong support for public schools individual districts may experience widely varying perceptions. Individual districts may have residents who want more or less services from their schools, have different educational needs, or face different competitive pressures for hiring teachers. Our funding system recognizes differences for size and program and allows districts to vary their expenditure levels within the range of 80 to 100 percent of the maximum set in statutory entitlement schedules (with some exceptions). The 80 to 100 percent range has been generally viewed as the maximum range allowable which still meets obligations to equitably fund schools. Approximately 41 percent of districts budgeted at or very near their maximum level while 23 percent budgeted at or very near their minimum level in FY2001

It has been argued Montana has a large number of smaller schools that spend more per student making the statewide average comparison of expenditure per student invalid when considering larger Montana districts. In the table below⁴ per student expenditures of a sample of large Montana districts are compared to large districts in other western states. As this table indicates Montana expenditures in larger districts compare quite well with bordering states of North and South Dakota, and Idaho while being somewhat lower than Wyoming. Large districts in more populous states like Washington, Oregon, and Colorado spend at only marginally higher rates.

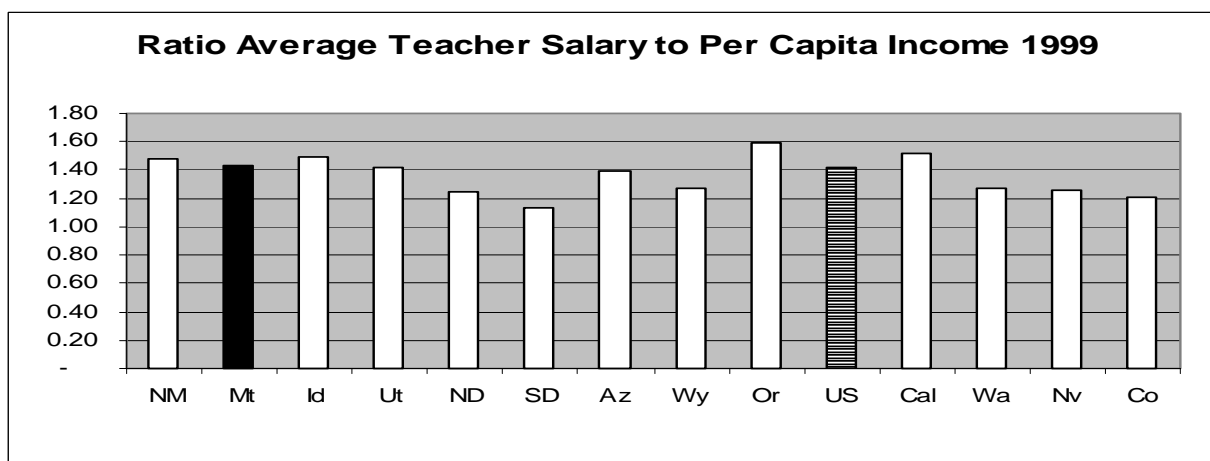
Comparison of District per Pupil Current Expenditures FY99

<u>State</u>	<u>District</u>	<u>Current Expenditure/Pupil</u>
Arizona	Yuma	4,632
Utah	Provo	4,670
Idaho	Idaho Falls	4,731
Utah	Ogden City	4,769
Arizona	Flagstaff	4,867
North Dakota	Bismarck	4,886
Montana	Great Falls	4,906
Idaho	Pocatello	4,937
New Mexico	Roswell	4,991
New Mexico	Santa Fe	5,085
South Dakota	Rapid City	5,101
South Dakota	Sioux Falls	5,213
Colorado	Pueblo	5,368
Montana	Billings	5,406
North Dakota	Fargo	5,610
Colorado	Greeley	5,646
Oregon	Bend	5,675
Colorado	Littleton	5,730
Washington	Bellingham	5,770
Washington	Yakima	5,824
Montana	Missoula	5,828
Washington	Renton	5,890
Oregon	Medford	5,894
Wyoming	Laramie	6,090
Washington	Kennewick	6,166
Nevada	Elko	6,272
Wyoming	Natrona Co (Casper)	6,505
Oregon	Eugene	7,182

The largest expense in school budgets is teacher salaries. Tight labor markets in recent years put pressure on school districts to compete for teachers with other occupational opportunities available to potential teachers and other states with more resources. We have heard anecdotes of more aggressive recruiting by other states in the west using techniques such as signing bonuses, loan forgiveness, and housing support. The chart below¹ comparing Montana teacher salaries to the US and other western states confirms our relatively lower salary levels. The average teacher salary in Montana is below the national average and below most western states only exceeding North and South Dakota in our region. Of course salary levels in individual districts in Montana vary significantly ranging from under \$25,000 in some rural districts to \$40,000 in some large districts.



Many western states have higher income levels and can more easily afford higher salaries making competition difficult. As indicated in the Chart below, when expressed as a percentage of state per capita income Montana's teacher salaries are within the range of other states in the west. This merely reflects the lower income levels in Montana relative to the US and most western states.

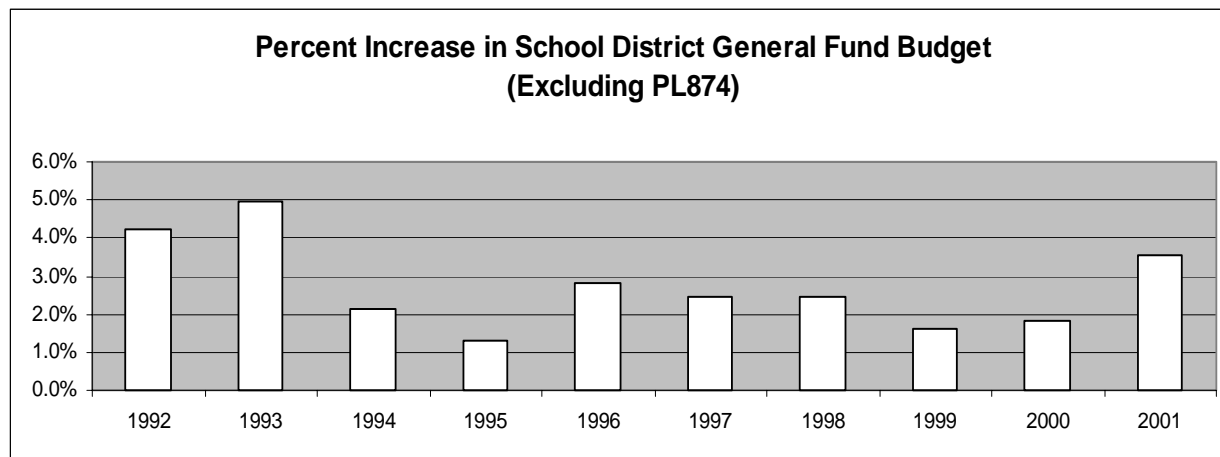


As with expenditure levels, the fact that Montana teacher salaries after adjustment to reflect relative income levels of states are about average doesn't mean that districts may not be experiencing difficulty attracting teachers. After all an individual comparing offers for a teaching job may be more interested in the amount he or she will be paid than how it compares to other people in the same state.

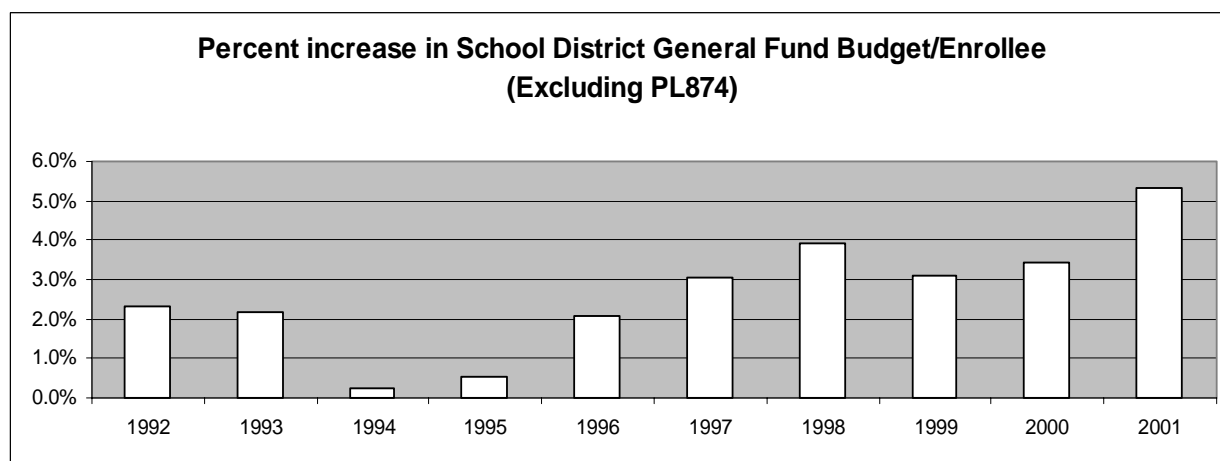
Recent historical data on school funding in Montana

School funding in Montana has gone through several changes in the last decade. Overall spending has increased substantially though not at steady rates. As indicated in the chart below the annual percent increase in total statewide school general fund budgets since 1992 has ranged from slightly over one percent to five percent. Since the implementation of the current funding formula in 1994 overall budget growth has remained under 4 percent per year. During this period enrollments fell by approximately

1000, first rising by nearly 10,000 from 1992 to 1996 then falling by nearly 11,000 from 1996 to 2001.



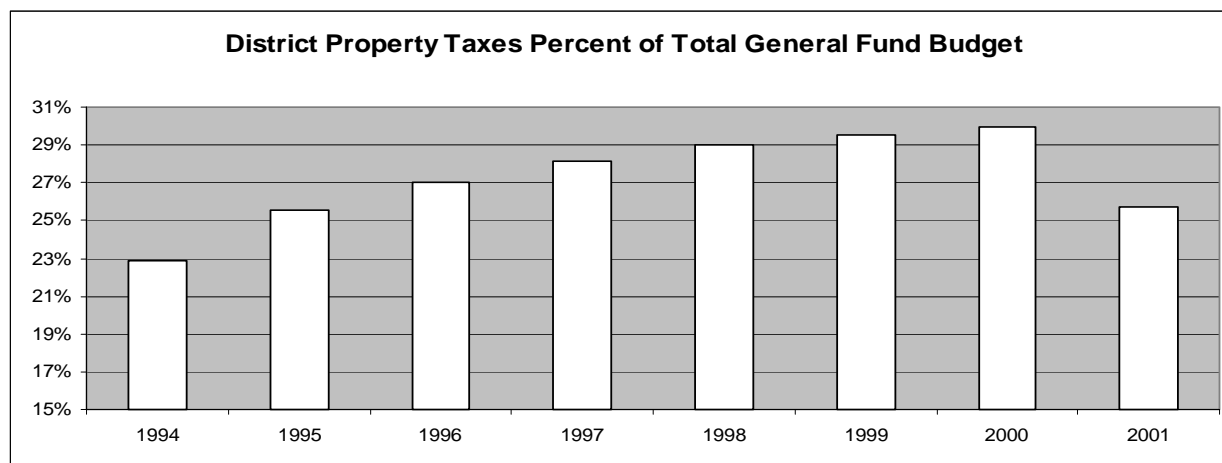
When looked at on a per student basis there was slower overall budget growth in earlier years when enrollment was growing and more rapid growth in later years when enrollment was declining. The following chart contrasts with the above chart.



The general pattern shown in the above charts is rarely the case for any individual district as experiences are quite varied. Major factors affecting growth rates are increasing or declining enrollment, local support for increased spending, and whether the district has reached the caps. From FY1995 to FY2001 districts with increasing enrollments which had not reached the cap experienced as a group a 31.6% budget growth while for the same period districts with declining enrollments that had reached the cap experienced as a group 9.1% budget growth. Overall district general fund budgets grew 15.7% during this period. To some extent this is what should be expected from an equalizing system – growth is facilitated for those at lower spending levels and increasing needs (as demonstrated by increasing enrollments) and restraint is applied to those with high spending levels and decreasing needs. Had it not been for caps the growth rates shown above would certainly have been higher.

More districts appear to be reaching caps during time of declining enrollments. In FY2001 47 percent of districts whose enrollment had declined between 1995 and 2001 were at or within 1 percent of reaching their cap while only 19 percent of districts with increasing enrollments were to this point. Districts seem unable to make the reductions necessary – or they need more time to carry out the actions necessary to bring the budget in line with enrollment changes.

As districts increase spending beyond the BASE (80 percent) level district property taxes pay a larger portion of the total general fund budget. When the current funding structure was enacted the entitlements were set in such a way that many districts were below or very near the BASE level and few were at or over the maximum. However as the years have passed and districts have moved to the BASE (as required by law) or increased budgets toward maximum the share paid by district levies has increased. In addition the pattern of state aid has shifted some in the past several years as the legislature has reduced taxes and reimbursed districts for the lost tax revenues directly rather than by increasing state equalization aid and have increased the portion of the BASE that is fully funded by the state (Direct State Aid) and reduced the portion requiring local participation (GTB). The following chart illustrates the change in district property tax share of general fund budgets since 1994.



Summary

Financial support for Montana public schools compares well with other states in the west and is especially strong when relative income levels are considered. Teacher salaries are low but in proportion to state income levels. State and local tax levels in relation to income reflect averages in the west.

School budgets in total have maintained growth in the face of recent declines in enrollment. The experience of individual districts has been quite varied with historically higher spending districts that experience enrollment decline being pushed to make absolute reductions in general fund budgets as they reach statutory caps.

Data sources:

¹ National Education Association

² United States Census Bureau, Annual Survey of Government finances

³ Tax Foundation

⁴ United States Census Bureau, Public Elementary and Secondary Finances